by Samuel Pizer and Frederick Cutler ☆

The Role of U. S. Investments in the Latin American Economy

THIS article contains the highlights of a special study conducted by the Office of Business Economics to obtain data showing the economic significance of the operations of United States direct investments in Latin America more fully than the data on capital flows and income collected for many years in connection with the balance of payments of the United States. Final and complete results of this survey will be made available in a separate publication.

The Office of Business Economics acknowledges the cooperation of the many companies which undertook the very considerable special effort required to assemble the detailed information on which this report is based.

WITH the unprecedented expansion of United States business investments abroad since the war there has come an increasing need to extend our knowledge of their impact on the economies of foreign countries, and to obtain data which go beyond the familiar estimates of net capital flows, book values and earnings. This article is the first attempt to present such an analysis, and represents the results of a comprehensive survey of Latin America, a major area in which United States investments have contributed greatly to economic development.

The companies reporting in this survey account for 85 percent of the total assets employed by all United States companies in Latin America. These percentages for major industries are given at the end of this article. On the basis of 1955 earnings, the group of companies covered account for four-fifths of total earnings of all United States companies in Latin America.

The data given below sum up the reports of the companies participating in this survey; no attempt was made to estimate the equivalent totals for all United States companies operating in Latin America, although the coverage is sufficient to establish the major facts concerning the activities of United States companies. In order to avoid repetition this qualification is not cited in connection with each set of statistics, but it should be kept in mind by the reader.

In all, reports are included for 300 parent companies covering nearly 1,000 subsidiaries and branches in Latin America. Of the 1,000 enterprises covered, over 150 were in Mexico and there were over 100 each in Argentina, Brazil, and Cuba.

Summary of results

Data collected in this survey give a view of the operations of United States companies in relation to the balance of payments, foreign trade, total output, incomes, employment, government revenues, and capital investment of the countries of Latin America. The following section summarizes the principal results.

A major finding of this survey is that United States companies produced nearly $5 billion of goods and services in Latin America in 1955 and contributed substantially to the net product of the area. Exports by the companies accounted for 30 percent of all Latin American exports and about one-third of Latin American exports to the United States. The net direct foreign exchange return to Latin America from the operations of these companies was $1 billion. In addition, manufactures produced locally by the companies are already important supplements to imports, and petroleum and other products are being made available for use in the growing economies of the countries in the area. Imports into Latin America by the companies accounted for about 10 percent of total Latin American imports, including a significant part of the capital equipment imported.

The reports indicate that United States companies generated a considerable portion of total incomes in Latin America. Payments to employees were nearly $1 billion in 1955, and the companies directly employed some 600,000 persons. Governments in Latin America received from the companies over $1 billion in income and other taxes, accounting for a sizable portion of all government revenues in these countries. Expenditures for materials and investment in various countries were also important factors in the economic activity of the area.

New data developed in this survey show that total capital investment in Latin America by the reporting companies was about $600 million in 1955, including over $400 million for plant and equipment expenditures. This is twice as great as the increase in the book value of the investments, and indicates that United States companies are participating on a large scale in the establishment of additional productive facilities in the area.

This report deals only with the direct activities of the United States companies reporting, and therefore does not reflect the full extent to which the companies affect economic activity in Latin America through secondary and less direct effects of these primary activities. Since this report is statistical, it also does not cover such factors as contributions to health, education, and other social services, or to the important technical and managerial innovations which are introduced wherever the companies operate.

Growth of investments

To put the present status of United States direct investments in Latin America into historic perspective, their growth over the years will be reviewed briefly. Latin America has

NOTE.—MR. PIZER AND MR. CUTLER ARE MEMBERS OF THE BALANCE OF PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS. MAJOR CONTRIBUTIONS TO THE REPORT WERE ALSO MADE BY ZALIE V. WARNER AND JULIUS N. FRIEDLIN OF THAT DIVISION.

been a chief focus for United States direct investments abroad since early in this century. The first investments were an extension of the trading interests of United States exporters and importers, and the rich natural resources of Latin America also soon attracted large amounts of capital. Investments in natural resource development were especially stimulated by the demands of the First World War.

By 1919, as shown in table 1, United States direct investments in Latin America had a book value of $2 billion, about half of the total of United States direct investments abroad at that time. In the 1920's, when United States private investments abroad were in an expansionary phase, direct investments in Latin America increased by $1.5 billion, with much of the expansion coming late in the period as public utility investments became prominent. In the worldwide business decline after 1929 United States domestic and foreign investments fell off sharply and there was a drop in the value of existing assets, including certain properties in Latin America. The needs of World War II brought a renewal of investment on a substantial scale, though the total book value of United States direct investments in Latin America in 1946 had not yet reached the earlier peak.

Since 1946, United States companies have expanded their facilities in Latin America at an unprecedented rate, so that at present their investment has a book value of over $7 billion. Moreover, actual gross capital expenditures by the companies have been much greater than the net increase in book values shown in table 1. In the 1950–55 period, for instance, while the net increase in book values was $1.8 billion, it is estimated on the basis of data developed in this survey that an additional amount nearly as great was spent to replace and modernize existing plant and equipment by using funds currently set aside to cover depreciation, and to explore and develop new resources. Capital investments by United States companies in Latin America were considerably larger in 1956 than in the previous year, covered by this study, and investment activity is continuing at a high rate.

Contribution to Latin American Production

One of the most significant results of this survey is a comprehensive measure of the output of the United States companies operating in Latin America and the effects of this output on the foreign trade and domestic economies of the area. The first chart shows the market value of the production of the United States companies producing commodities in Latin America.

Production exported for dollars in 1955 by the companies, after eliminating estimated trade within Latin America, was over $2.1 billion, including sales of $1.3 billion to the United States and about $800 million to other countries. In addition, about $100 million of products were sold for foreign currencies. These amounts represent about 30 percent of all Latin American exports to other areas, and over one-third of the area's sales to the United States.

United States companies also produced goods for local markets with a sales value of about $2.5 billion, and the net inflow of new capital added about $100 million to Latin American resources. Thus the gross amount of goods produced in Latin America by United States companies for export and home consumption, plus capital flows, was about $4.8 billion.

In 1955 United States companies reporting in this survey remitted income and other intercompany charges totaling $610 million, imported $515 million of capital equipment and other materials from the United States, and imported about $150 million of materials from other countries.

When the foreign exchange costs of $1.3 billion are subtracted from the total market value of output, plus capital flows, the remaining amount of $3.5 billion can be taken as a measure of the net amount of goods made available to the countries of Latin America through the operations of United States companies in the area in 1955. To some extent, of course, local resources would have been utilized if the United States companies had not been active. However, the value of the services performed by public utilities and other enterprises not included in these calculations, plus the indirect contributions to economic progress in the area resulting from the operations of the companies, would offset this consideration.

Table 1.—Book Value of U. S. Direct Investments in the Latin American Republics, by Major Industries and Selected Years

[Millions of dollars]

	1919	1929[1]	1940[1]	1946	1950	1952	1955
All industries, total	1,988	3,519	2,771	3,045	4,735	5,758	6,556
Agriculture	500	817	360	407	520	564	598
Mining and smelting	661	732	512	506	628	871	1,023
Petroleum	326	617	572	697	1,408	1,576	1,770
Manufacturing	84	231	210	399	780	1,166	1,369
Public utilities	313	887	962	960	1,042	1,076	1,132
Trade	71	119	82	72	243	344	446
Miscellaneous	34	116	74	45	116	161	218

1. Includes European dependencies with a book value of $86,000,000 in 1940, and $57,000,000 in 1929.

Source: U. S. Department of Commerce, Office of Business Economics.

Table 2.—Net Results from Operations of United States Companies in Latin America, by Industry,[1] 1955

[Millions of dollars]

	Total	Agriculture	Mining and smelting	Petroleum	Manufacturing
Gross product and capital flows of U. S. companies, total	4,771	440	757	2,109	1,464
Exports to the United States	1,285	220	400	635	30
Other exports for dollars	819	109	209	491	9
Exports for foreign currencies	105	13	47	(²)	45
Sales in local markets	2,475	85	108	963	1,319
Net capital flow from the United States	87	13	−7	20	61
Foreign exchange used, by U. S. companies, total	1,277	90	170	682	335
Remittances of income, fees, etc.	610	40	93	424	53
Imports from the United States	515	38	76	164	237
Imports from other countries	152	12	1	94	45
Net product accruing to Latin America	3,494	350	587	1,427	1,129

1. Excludes operations of public utilities, trade and distribution, and service enterprises.
2. Less than $500,000.

Note.—The net results calculated in this table corresponds closely to the totals given for local payments in table 7, for the industries shown, although the figures do not exactly coincide because of statistical discrepancies and the use of local financing to pay for local expenditures in some cases.

Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

The immediate effects of the operations of the United States companies on the balance of payments of Latin America are indicated by the difference between exports and capital inflows of $2.3 billion, and costs of imports and income and other remittances of $1.3 billion. To this net direct foreign exchange return of $1 billion should be added most of the value of goods produced by United States companies for local sales. Generally, these goods are of the type that, in the absence of the large capital facilities and technical and managerial experience of these companies, would have had to be imported.

The magnitude of the operations of the companies, and the results shown when all these factors are considered, demonstrates the inadequacy of analyses which take into account only the net capital flows and income remittances occurring in a given year. As shown in the first chart, the latter are not large in amount as compared with the value of production generated by the important and complex industrial base already created by United States companies as part of the economy of Latin America. The continuing activity of these companies in producing goods and services for export and home consumption, and their investments for the development of additional productive capacity, are both essential aspects which must be considered in calculating their effects on the Latin American economy.

Over half of the dollar exports produced by United States companies are accounted for by petroleum, as shown in table 2, with smaller amounts contributed by mining and agriculture. Exports of manufactures, both for dollars and other currencies, consist very largely of meat products and other foodstuffs. Sizeable nondollar exports are produced by mining companies, mainly in Chile, Mexico, and Peru.

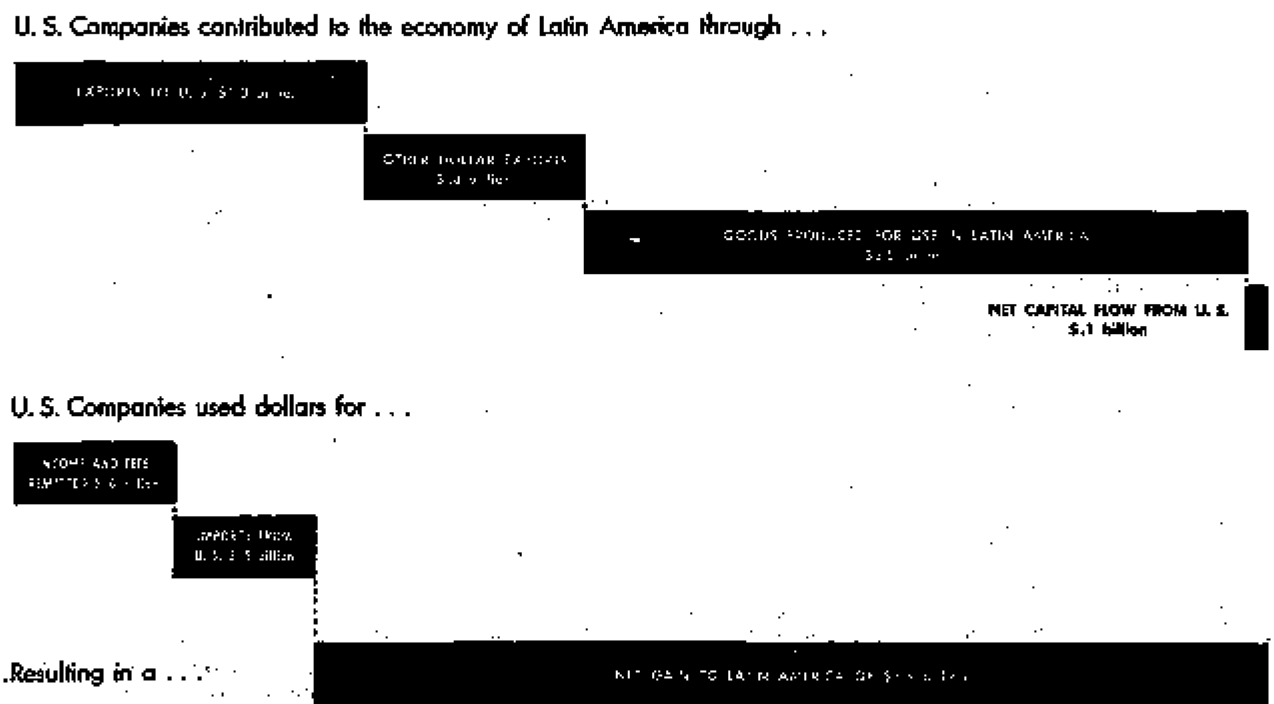
With respect to sales for dollars to countries other than the United States, nearly $200 million of petroleum sales are estimated to be sales to other countries in Latin America, leaving about $820 million of dollar sales to countries in Europe and elsewhere. These sales include nearly $500 million of petroleum sales from Venezuela, about $100 million of sales of sugar and other agricultural products, largely from Cuba and other countries in the Caribbean area, and over $200 million of sales of metals and minerals from Chile, Mexico, and Peru. Some of the exports may represent trade within Latin America which could not be identified as such.

The extent of participation by United States companies in exports differs considerably from country to country in Latin America. Certain countries export one or a few major commodities produced largely by United States companies. Export sales by such companies account for over 40 percent of total exports for Venezuela, Chile, and Peru, and some of the smaller Caribbean countries.

In the larger countries with more diversified economies, such as Argentina, Brazil, and Mexico, United States companies are relatively less important as exporters, but make their major contribution in the development of industrial capacity to supply growing local markets. In a number of countries, including Chile, Colombia, Cuba, and Venezuela, the production of manufactures by United States companies for local use is still relatively small but growing rapidly.

As United States companies expand manufacturing facilities in Latin America, their activities add to local incomes and consumption, provide goods in greater variety and at lowered prices, and also help the growth of technical and managerial capacities in the area and thus promote conditions for further industrialization. United States exports of manufactures to Latin America (exclusive of petroleum

The Net Gain to Latin America From Operations of U. S. Direct Investments* in 1955 Was $3.5 Billion



* Includes only agriculture, mining, petroleum, and manufacturing

U. S. Department of Commerce, Office of Business Economics

57-1-3

products) were \$2.7 billion in 1955, well above the totals for most earlier years.[1] However, in 1955 United States companies produced and sold locally about \$1.3 billion of manufactures in Latin America. Deducting imported manufactures included in the latter figure, the total of manufactures by United States companies sold in the Latin American market in 1955 was nearly \$4 billion.

Table 3.—Imports by Latin American Subsidiaries and Branches of U. S. Companies by Industries and Type of Import, 1955

[Millions of dollars]

Industries	Total imports	Capital equipment		Other imports	
		From the U. S.	From other countries	From the U. S.	From other countries
All industries listed, total [1]	**697**	**137**	**7**	**409**	**145**
Agriculture	50	6	(2)	32	12
Mining and smelting	77	25	(2)	51	1
Petroleum [3]	258	65	6	99	88
Manufacturing	282	17	1	220	44
Public utilities	31	24	(2)	6	(2)

1. Excludes imports by trade and service industries not listed.
2. Less than \$500,000.
3. Excludes \$193 million of all products imported by U. S. distributing and marketing companies in Latin America from U. S. companies producing petroleum in Latin America.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

For some countries in the area, as shown in the second chart, manufactures produced locally are important supplements to imports from the United States, although the specific goods imported or produced locally differ considerably.

Increased manufacturing locally, however, has not and need not supplant exports from the United States. Instead, as the amount of dollars available to Latin America is maintained or augmented, the countries in the area use them to purchase other products not economically manufactured in Latin America.

Import of equipment and materials

United States companies[2] in Latin America imported capital equipment, materials, and components totaling about \$700 million for their own use in 1955. Imports from the United States were \$546 million, or about 17 percent of all Latin American nonmilitary imports from the United States. Imports from other countries, possibly including a small amount of trade within Latin America, were about \$150 million.

Imports of capital equipment from the United States were \$137 million as shown in table 3, with the petroleum industry accounting for nearly half of the total and mining and public utilities for about \$25 million each. Reported imports of capital equipment from other countries were quite small. On this basis, capital equipment directly imported by United States companies accounted for 17 percent of all Latin American imports of capital equipment from the United States.

Other imports, after eliminating intercompany petroleum sales, amounted to about \$550 million, of which \$409 million was from the United States. The largest imports, over \$260 million, were by manufacturing enterprises, especially those in Mexico and Venezuela. Although no details were obtained, the imports presumably represent component parts and materials. Petroleum companies imported over \$185 million of materials, and the mining and agricultural industries brought in \$40–\$50 million each. Some of these imports, although not classified by the companies as capital equipment, may have been materials required for development or plant expansion.

Of total imports by the companies, by far the largest amount was over \$170 million reported for Venezuela, with petroleum and manufacturing companies both importing large amounts. Imports were also large by United States companies in Mexico, Brazil, Argentina, and Cuba. Imports into Brazil in 1955 were held down by exchange restrictions.

Although United States companies have a smaller direct share in Latin American imports than in Latin American exports, accounting for 10 percent and 30 percent, respectively, their indirect influence on imports is probably much more substantial. In addition to their continuing demand for capital equipment and components of United States design and manufacture, they familiarize Latin Americans with United States production methods, practices, and sources of supply, and thus have a considerable indirect effect on the demand for United States capital equipment and other goods in Latin America.

Table 4.—Sales of U. S. Companies operating in Latin America, by Industries and Destination, 1955

[Millions of dollars]

Industries	Total sales	Local sales	Exports to U. S.	Other dollar exports	Foreign currency exports
Total, industries listed [1]	**4,946**	**2,735**	**1,287**	**819**	**105**
Agriculture	427	85	220	109	13
Mining and smelting	765	108	400	209	47
Petroleum	2,090	963	635	491	1
Manufacturing	1,403	1,319	30	9	45
Public utilities [2]	261	260	2	(3)	------

1. Excludes sales of trade and service industries not listed. 2. Total revenue for public utilities. 3. Less than \$500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Table 5.—Sales of United States Companies' Operations in Latin America, by Specified Countries and Destination, 1955

[Millions of dollars]

Country	Total sales	Local sales	Exports to U. S.	Other dollar exports	Foreign currency exports
Latin American Republics, total [1]	**4,946**	**2,735**	**1,287**	**819**	**105**
Argentina	542	476	23	3	40
Brazil	667	661	5	(2)	2
Chile	483	141	149	174	19
Colombia	260	210	31	18	------
Cuba	478	313	105	54	5
Mexico	549	376	138	11	24
Peru	205	88	62	48	7
Venezuela	[3]1,307	274	592	[3] 442	(2)
Central America	221	105	96	16	4
Other countries	235	90	88	51	6

1. Excludes sales of trade and service industries.
2. Less than \$500,000.
3. Excludes \$190 million of petroleum sales to other Latin American countries which are included in local sales by the United States companies in the countries where the petroleum is distributed.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

1. See SURVEY OF CURRENT BUSINESS, December 1956, *Exports and Domestic Business*, for a discussion of United States exports to Latin America.
2. Excludes companies engaged primarily in trade.

Sales by U. S. companies nearly $5 billion

As shown in table 4, sales by United States companies producing commodities in Latin America were $4.7 billion in 1955, and revenues of public utilities were over $250 million.

Sales by the petroleum industry of about $2.1 billion originated largely from output in Venezuela, Colombia, and Peru, aggregating about $1.7 billion, plus the sales of affiliated companies in countries where their local production is small or nonexistent.[2] Intercompany petroleum sales of about $190 million have been eliminated, so that all petroleum companies in the area are treated, in effect, as a single consolidated enterprise. Of total sales by the petroleum industry, nearly $1 billion were made within Latin America, supplying much of the energy on which the economic development of the area depends. In addition, over $600 million of petroleum was exported for sale in the United States and nearly $500 million was sold for dollars to other foreign countries.

Manufacturing output is sold mainly within the countries where the enterprises are located, with the exception of meat products which are exported in considerable quantity. There is a very wide range in manufacturing sales by United States companies among the countries of Latin America, reflecting the great differences in their size and stage of development. Sales were $300–$400 million each in Argentina, Brazil, and Mexico, $50–100 million in Chile, Colombia, Cuba, and Venezuela, and less than $1 million each in seven of the Caribbean and Central American countries.

Nearly half of the output of United States mining companies in Latin America consisted of Chilean copper and nitrates. Production and refining of nonferrous metals and sulfur and other minerals was also important in Mexico and Peru, amounting to over $200 million and $90 million, respectively, in 1955. Mining in Venezuela, mainly of iron ore, resulted in sales of about $50 million, and that country is rapidly becoming a major producer of metals as well as petroleum.

Agricultural production by United States companies is concentrated in sugar properties in Cuba and properties producing tropical fruits and some natural fibers in other Caribbean and Central American countries and Peru. About one-fifth of the output is consumed locally and nearly all the remainder is exported for dollars to the United States and other countries. Sales by the companies operating in Cuba were nearly $200 million in 1955, far larger than in any other country in Latin America. Costa Rica, the Dominican Republic, and Honduras, were next with $30–$40 million each. There is little or no agricultural production by United States interests in the larger countries of South America.

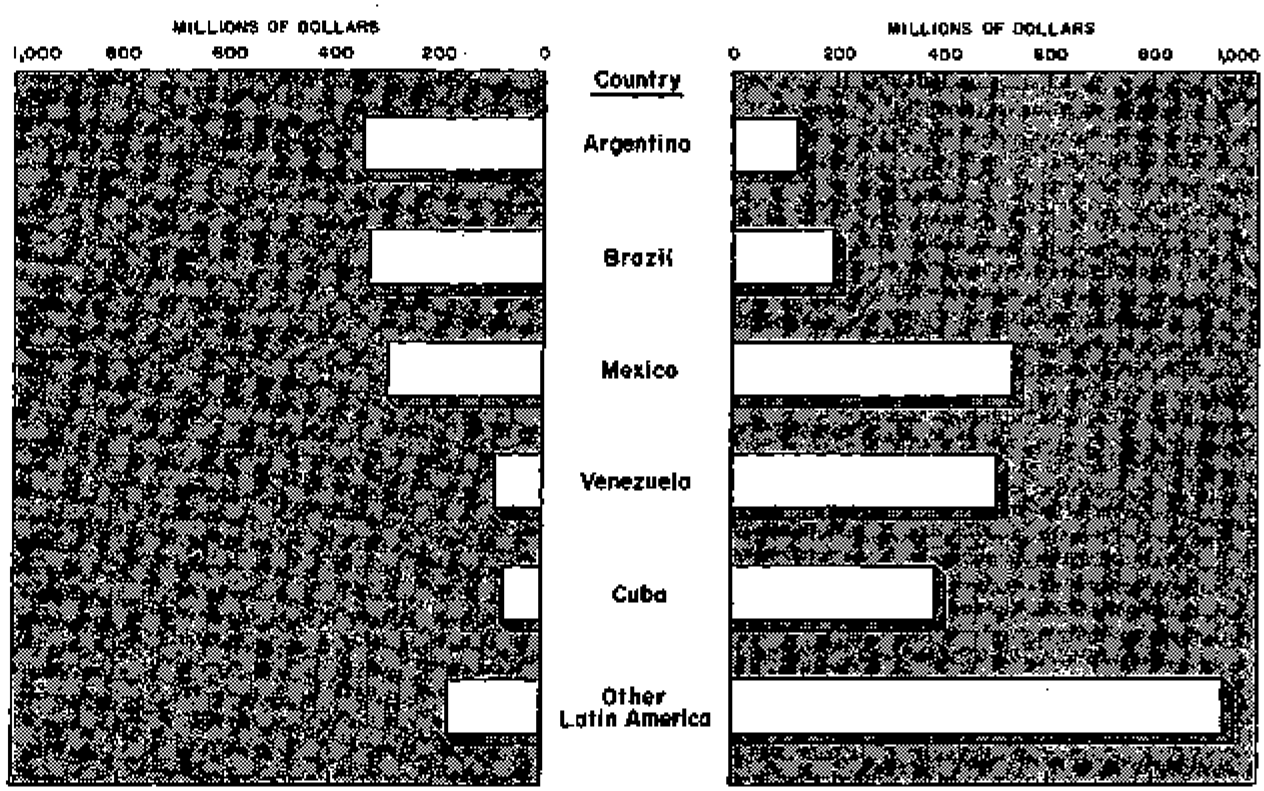
The output of the United States-owned public utilities in Latin America, as measured by their gross revenues, is about $260 million, but this relatively small amount does not measure the importance of these enterprises to the functioning of the economies of many countries in the area.

2. This preliminary result may be modified somewhat when further analysis of petroleum operations and interrelations is completed.

Sales of Manufactures in Latin America by U. S. Companies

Manufactures produced and sold in Latin America by U. S. Companies during 1955 were $1.3 billion

U. S. Exports of manufactures to Latin America during 1955 were $2.7 billion



U. S. Department of Commerce, Office of Business Economics

57-1-4

Total revenues range from over $100 million in Cuba to $15–$30 million each in Brazil, Chile, Guatemala, Mexico, and Venezuela. Of course, these are gross revenues; the net income of the companies remained quite small relative to the capital employed, and there were net losses in a few Latin American countries in 1955.

Table 6.—Remittances of Dividends, Interest, Branch Profits and Fees by U. S. Companies Operating in Latin America by Industry, 1955

[Millions of dollars]

Industry	Total	Interest	Dividends	Branch profits	Royalties and fees	Other and unspecified
All industries, total	650	23	58	490	47	32
Agriculture	40	(1)	6	29	5	(1)
Mining and smelting	93	3	12	61	7	10
Petroleum	424	1	14	383	12	14
Manufacturing	53	2	17	9	17	7
Public utilities	38	16	8	7	6	1
Other Industries	2	1	1	(1)	(1)	(1)

1. Less than $500,000.

NOTE.—All amounts are stated before local withholding taxes and include payments to United States parent companies and other recipients outside of the country where operations are conducted.

Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Share in Latin American incomes

The share of United States companies in the national income and gross national product of the countries in which they operate can only be indicated in rough orders of magnitude because of the many statistical and conceptual difficulties involved. Chief among the statistical difficulties are the lack of wholly comparable data for the various countries and the problem of choosing an exchange rate for deriving dollar equivalents. The principal conceptual problem concerns the extent to which indirect effects of the operations of the companies can or should be included.

Payments made in Latin America by United States companies operating there, other than payments for materials and indirect taxes, were about $2 billion in 1955, as shown in table 7. The sum of the national incomes of the countries in the area is estimated to be roughly $40 billion, so that the relationship to the total for the United States companies reporting would be approximately 5 percent. An alternative formulation of the direct contribution of United States companies would be to compare the gross domestic product of the area (roughly $50 billion) with the product originating in the United States companies. The latter amount can be approximated as the sales of the companies (about $5 billion) less materials purchased locally and imported (about $2 billion). If the indirect effect on the Latin American economy of the operations of the United States companies were taken into account the contribution would be substantially higher.

In relation to the portion of the net product of Latin American countries originating in the industrial sectors of mining and manufacturing, the share of United States companies is estimated at 20 percent.

On a country basis, payments by United States companies, other than payments for materials, accounted for about 25 percent of the national income of Venezuela and for roughly 10 percent of the incomes of Chile, Cuba, Honduras, and Peru. In Argentina, Brazil, and Mexico local expenditures by United States companies are substantial, but account for a much smaller proportion of the national income. This reflects in part the importance of agricultural output in these countries, in which United States companies do not participate, and in part the growth of the government sector and of housing and secondary service industries in which United States companies have only a very small part. In each of these countries local enterprise is already large and growing.

Table 7.—Local Payments by U. S. Companies Operating in Latin America, by Type and Industry, 1955

[Millions of dollars]

Industry	Total	Salaries	Materials, supplies, and equipment	Interest, royalties and dividends	Income taxes [1]	Other taxes	Other and unspecified
All industries, total	4,258	983	1,816	65	461	602	357
Agriculture	374	146	145	2	23	26	31
Mining and smelting	643	184	128	5	149	94	84
Petroleum	1,436	254	500	29	401	158	74
Manufacturing	1,086	207	639	15	56	86	83
Public utilities	306	188	75	10	16	16	63
Trade	404	60	271	3	17	18	39
Other industries	130	43	47	(2)	6	5	37

1. Includes payments of petroleum royalties in certain countries.
2. Less than $500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Impact on Incomes

As noted above, United States companies spent over $4 billion in Latin America in 1955 for payments of wages and salaries to employees, tax and other payments to local governments, materials and supplies, interest and dividends, and other payments. These direct payments account for a considerable part of the incomes of the area, and they also generate further activity and incomes indirectly through expenditures by the recipients of the funds.

Payments in Latin America by the companies for materials, supplies, equipment, and utilities totaled about $1.8 billion in 1955, including both capital expenditures and purchases for use in current production and sale. Manufacturing companies spent over $600 million in the area for such materials, including over $200 million in Argentina, $170 million in Brazil, and $125 million in Mexico.

Expenditures by petroleum companies were nearly $500 million, mainly in Brazil, Colombia, and Venezuela. Agricultural and mining companies spent $125–$150 million each for materials and supplies. The bulk of the expenditures by agricultural companies were in Cuba and over half the mining expenditures were in Mexico. Purchases by these industries probably include substantial amounts of crude oil, ores, and sugarcane produced locally by others and procured by the United States enterprises. Expenditures for materials by public utilities were about $75 million.

Nearly $1 billion paid to 600,000 employees

Salaries, wages and other payments made to or for their employees in Latin America by United States companies operating in the area were nearly $1 billion in 1955. Petroleum companies paid over $250 million in salaries, with Venezuela alone accounting for $185 million. Salary payments by manufacturing companies exceeded $200 million, including over $80 million in Argentina and substantial but smaller amounts in Brazil, Mexico, and Venezuela. Salaries paid by agriculture, mining and public utilities each exceeded $100 million.

Table 8.—Local Payments by U. S. Companies Operating in Latin America, by Type and Specified Countries, 1955

[Millions of dollars]

Country	Total	Salaries	Materials, supplies and equipment	Interest, royalties and dividends	Income taxes[1]	Other taxes	Other and unspecified
Latin American Republics, total	4,285	967	1,836	65	662	462	367
Argentina	506	112	267	8	15	71	34
Brazil	657	81	427	8	21	56	64
Chile	350	89	59	2	127	60	14
Colombia	292	70	152	7	19	8	36
Cuba	451	129	168	7	10	48	62
Mexico	503	90	257	9	37	57	63
Peru	147	38	76	2	14	9	6
Venezuela	989	246	257	14	384	31	54
Central America	182	51	46	1	17	23	15
Other countries	221	50	94	11	8	35	30

1. Includes payments of petroleum royalties in certain countries.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

On a country basis, salary payments were about $250 million in Venezuela, over $100 million in Argentina and Cuba, and $70–$90 million in Brazil, Chile, Colombia, and Mexico.

Companies reporting in the survey employed over 609,000 persons in Latin America in 1955, of whom about 9,000 were employees sent from the United States. Some 45,000 of the employees were classified as supervisory, professional or technical, and of these about 8,000 were from the United States and 37,000 were local personnel. The petroleum industry accounted for a large part of the employment of persons sent from the United States, as shown in table 9.

The largest number of employees, about 162,000 was reported by agricultural companies, although this total may reflect seasonal peaks to some extent rather than an annual average for 1955. The bulk of this employment was in Cuba, the Dominican Republic and Honduras. Manufacturing enterprises employed 154,000 persons, with by far the largest number in Argentina and Brazil. Employment by the mining companies was about 90,000, with over 20,000 each in Chile, Mexico, and Peru. Public utilities employed 78,000 persons, largely in Brazil and Cuba. The totals for other industry groups were comparatively small.

Table 9.—Employment in United States Companies Operating in Latin America, by Type and Industry, 1955

[Thousands]

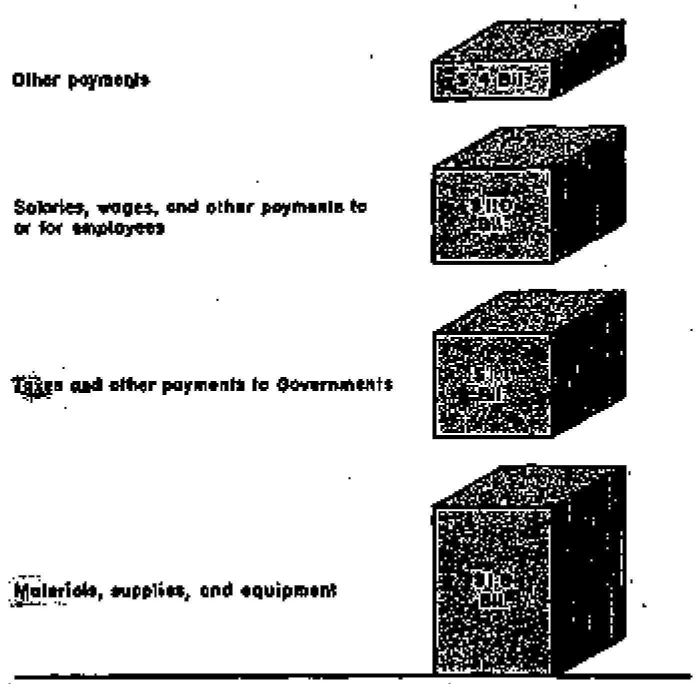
Industry	All employees			Supervisory, professional, and technical			Others		
	Total	Sent from U. S.	Local	Total	Sent from U. S.	Local	Total	Sent from U. S.	Local
All industries, total	609	9	600	46	8	37	563	1	562
Agriculture	162	1	161	5	1	4	157	(1)	157
Mining and smelting	90	1	89	7	1	6	83	(1)	83
Petroleum	60	4	56	9	4	5	51	(1)	51
Manufacturing	154	1	153	13	1	12	141	(1)	141
Public utilities	78	(1)	78	3	(1)	3	75	(1)	75
Other industries	63	2	62	8	1	7	55	(1)	55

1. Less than 1,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Local Expenditures by U. S. Companies Operating in Latin America Were $4.3 Billion During 1955



U. S. Department of Commerce, Office of Business Economics 57-1-6

Employment was fairly well distributed among the various countries. Brazil had the largest number with about 90,000, Argentina and Cuba about 75,000, Mexico about 70,000, and Chile, Colombia, the Dominican Republic, Peru, and Venezuela each had 30,000–45,000.

A measure of output per employee can be estimated by deducting from the sales of the United States companies the costs of materials used, totaling about $2 billion. The remaining output of some $3 billion can be attributed to the employees of the companies, or about $5,000 per employee. There are great differences in gross output per employee among the various industries in which United States companies operate in Latin America. Output per employee in the highly technological petroleum industry is about $22,000 and in mining it is a little over $6,000. For all extractive industries in Latin America (including petroleum) the equivalent figure is about $3,000 per employee. In manufacturing the product of United States companies represents over $3,000 per employee, some two to three times the output per employee for all Latin American manufacturing. However, many of the employees engaged in manufacturing in Latin America produce handicrafts.

Data on compensation per employee can be obtained by comparing total wage and salary payments and numbers of employees reported by the companies. On this basis, the average compensation per employee for all industries was about $1,600. This average also varies greatly among different industries, and partly for that reason also among different countries. Differences among countries within the same type of industry also reflect variations in living costs and standards of living. Petroleum companies paid about $4200 per employee, public utilities about $1,750, mining about $1,500 and manufacturing about $1,350. The average for agriculture is about $900, but since some of these employees probably do not work throughout the year, the per capita compensation derived from these reports would tend to be low and would reflect less than a year's work.

Table 10.—Employment in United States Companies Operating in Latin America, by Type and Selected Countries, 1955

[Thousands]

Countries	All employees			Supervisory, professional and technical			Others		
	Total	Sent from U. S.	Local	Total	Sent from U. S.	Local	Total	Sent from U. S.	Local
Latin American Republics, total	609	9	600	46	8	37	563	1	562
Argentina	75	(1)	75	5	(1)	5	70	(1)	70
Brazil	89	1	89	8	1	8	81	(1)	81
Chile	44	(1)	43	4	(1)	4	40	(1)	40
Colombia	32	1	31	3	1	2	28	(1)	28
Cuba	73	(1)	73	4	(1)	3	70	------	70
Dominican Republic	39	(1)	38	1	(1)	1	38	(1)	38
Mexico	68	1	67	6	1	5	62	(1)	62
Peru	45	1	44	4	1	3	41	(1)	41
Venezuela	41	4	37	7	3	3	34	(1)	34
Central American countries	77	1	77	2	1	1	76	(1)	75
Other countries, total	25	(1)	25	2	(1)	2	24	(1)	24

1. Less than 1,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

By far the highest compensation per employee, about $6,000 was paid in Venezuela, reflecting the importance of the petroleum industry, high living costs, and the relatively large number of employees sent from the United States. Compensation per employee was also above the average in Chile, Colombia, and Cuba.

Payments to governments over $1 billion

United States companies reporting in this survey paid over $1 billion in income and other taxes to governments in Latin America in 1955. According to the available estimates, this total represents roughly 15 percent of all Government revenues in the area.

Taxes on income, including royalty oil payments in Venezuela, were about $650 million, accounting for 30–40 percent of all direct taxes on income and profits in Latin America.

About 60 percent of the taxes on income were paid by petroleum companies, of which about half was paid as income taxes and half as royalties on oil products. This represents an overall income tax rate of about 47 percent of profits before taxes for the industry. By far the largest income tax payments by the petroleum companies were in Venezuela; in most other countries indirect taxes paid by the petroleum companies were much larger than direct taxes on income.

Mining companies paid nearly $150 million in income taxes in 1955, as well as over $90 million in indirect taxes. Based on these figures, income taxes on mining enterprises were at a rate of about 63 percent, and the rate would be substantially higher if the other types of taxes were taken into account. The rate was somewhat higher in Chile, where by far the largest amount of taxes on mining was paid. Income taxes of about $50 million were paid by manufacturing companies, including sizable amounts in Argentina, Brazil, and Mexico. The average effective income tax rate on manufacturing companies appears to be about 37 percent. In addition to income taxes, manufacturing companies paid about $85 million in indirect taxes. Taxes paid by other industries appeared to be at a rate of about 40 percent, but were comparatively small in amount.

Table 11.—Revenues of Latin American Governments Derived from U. S. Companies in Latin America, by Type and Industry, 1955

[Millions of dollars]

Industry	Total revenue	Income taxes [1]	Other taxes			
			Total	Sales taxes	Import duties	Other and unspecified
All industries, total	1,063	661	402	52	73	277
Agriculture	49	23	25	1	2	23
Mining and smelting	243	149	94	------	(2)	94
Petroleum	559	401	158	19	64	76
Manufacturing	135	50	85	24	5	57
Public utilities	30	15	15	4	(2)	11
Trade	35	17	18	4	3	12
Other industries	12	6	5	(2)	(2)	5

1. Includes payments of petroleum royalties in certain countries.
2. Less than $500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

As would be expected in less developed areas, the governments of the Latin American countries, with the exception of Chile and Venezuela, derive most of their revenue from indirect taxes, especially taxes on consumption and imports. Although the companies reporting in this survey were not asked to provide details on indirect taxes, some breakdowns were given and are shown in tables 11 and 12. These figures show the importance of sales taxes for the manufacturing and petroleum industries and of import and various production taxes for petroleum and mining.

From the point of view of tax administration, and considering the regressive nature of indirect taxation in Latin America, several countries in the area derive great benefit from their ability to obtain such a considerable part of their revenues in the form of direct taxes on the income of United States companies operating in their territory.

Venezuela received the largest amount of tax revenue from United States companies, accounting for nearly 40 percent of the total for Latin America. Taxes received from United States companies provided about half of total government revenues in Venezuela. In Chile, receipts from United States companies also yielded a large part of government revenues. Taxes on United States companies were smaller but nevertheless of considerable significance in a number of other countries, especially Argentina, Brazil, and Mexico. These three countries have relatively well developed economies, and revenues derived from United States companies comprise a much smaller part of their total government revenues.

Scope of Investment Activities

With Latin American countries striving to raise their productive capacity, participation by United States companies in capital formation is a very important aspect of their operations in the area. The most comprehensive and meaningful measure of such investment activity includes expenditures for plant and equipment, net additions to inventories, and outlays to explore and develop new sources of raw materials. United States companies reporting in the survey used nearly $600 million in Latin America for these purposes in 1955.

Table 12.—Revenues of Latin American Governments Derived from U. S. Companies in Latin America, by Type and Selected Countries, 1955

[Millions of dollars]

Country	Total revenue	Income taxes[1]	Other taxes: Total	Other taxes: Sales tax	Other taxes: Import duties	Other taxes: Other and unspecified
Latin American Republics, total	1,063	461	402	52	73	277
Argentina	90	15	75	16	3	55
Brazil	77	21	56	10	20	25
Chile	186	127	60	3	6	51
Colombia	28	19	8	------	3	5
Cuba	65	16	48	18	12	19
Mexico	94	37	57	2	1	54
Peru	23	14	9	1	2	6
Uruguay	11	1	10	(2)	4	5
Venezuela	417	386	31	(2)	1	30
Central America	40	17	23	1	16	6
Other	32	8	25	(2)	4	21

1. Includes payments of petroleum royalties in certain countries.
2. Less than $500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Plant and equipment expenditures by United States companies totaled over $400 million in 1955, as shown in table 13. Similar figures for total private industrial investment in Latin America are not available. Total gross private investment in fixed capital in Latin America has been estimated at somewhat over $5 billion in 1955, but this total includes residential housing and other nonindustrial outlays. Consequently, the share of the United States companies in private investments in fixed industrial assets would be at least one-tenth. Their share in overall investment activity would be somewhat smaller since investments by governments in the area are about 30 percent of the total.

However, the significance of foreign capital in the economic development of a region derives not so much from its share in overall capital formation as from its contribution in specific strategic spheres of economic activity which may stimulate and facilitate further growth of indigenous enterprises. At the present time, United States direct investment companies are particularly active in developing the mineral resources of the area, establishing new industries and expanding older enterprises, introducing new techniques of distribution, and continuing to provide electric power and other public utilities in many countries.

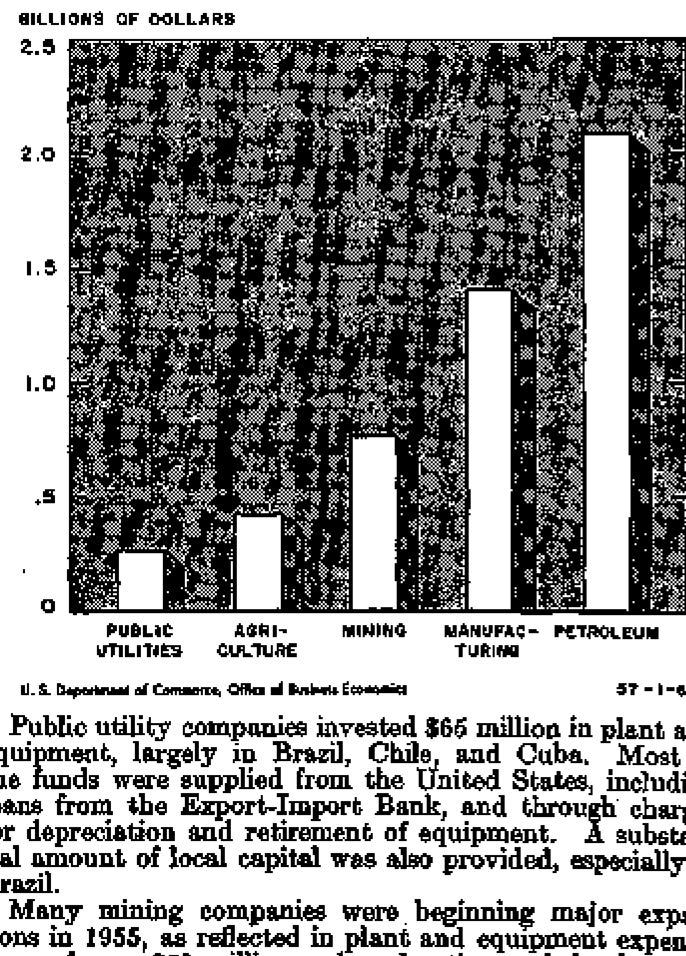
Half of the total of nearly $600 million invested by United States companies in 1955 was provided by the petroleum industry. Investments by this industry were considerably larger in 1956 and are expected to continue at a high rate for some time to come. Petroleum companies spent $236 million for plant and equipment in 1955 and over $60 million to explore and develop new producing areas. The funds to finance these outlays were provided mainly out of charges against income, as shown in table 13.

About two-thirds of the petroleum investment was in Venezuela, and sizable investments were also made in Colombia, Peru, Brazil, and Cuba. In 1956 substantial investments were being made in a number of countries where there was comparatively little activity before.

United States manufacturing companies covered in the survey invested about $110 million in Latin America in 1955. Manufacturing investments were financed largely out of funds provided by parent companies and other United States sources and by reinvested earnings, with smaller amounts provided by depreciation charges and some local financing. For this industry, investments by companies not reporting in this survey were also substantial.

About $30 million of the investment in manufacturing plant and equipment and inventories was in Mexico, as well as a considerable part of the expansion in accounts receivable. Manufacturing investments in Argentina and in Brazil exceeded $20 million, and over $10 million each was invested in Colombia and Venezuela.

Sales by U. S. Companies Operating in Latin America During 1955



U. S. Department of Commerce, Office of Business Economics 57-1-6

Public utility companies invested $65 million in plant and equipment, largely in Brazil, Chile, and Cuba. Most of the funds were supplied from the United States, including loans from the Export-Import Bank, and through charges for depreciation and retirement of equipment. A substantial amount of local capital was also provided, especially in Brazil.

Many mining companies were beginning major expansions in 1955, as reflected in plant and equipment expenditures of over $50 million and exploration and development expenses of about $10 million. Investment by this industry is scheduled for continued high-level activity. Much of the 1955 investment, as well as the later expansion, was in Peru, and investments were also substantial in Chile, Mexico and Venezuela. Depreciation and depletion charges are a major factor in financing capital expansion and modernization by the mining industry, with smaller amounts provided by reinvested earnings.

Investments by United States agricultural enterprises in Latin America were $30 million in 1955, spread over a number of countries. Depreciation charges are also a major source of funds for these companies, with reinvested earnings and capital flows from the United States providing lesser amounts.

Table 13.—Sources and Uses of Funds of U. S. Companies Operating in Latin America, by Industries,[1] 1955

[Millions of dollars]

	Total	Agriculture	Mining and smelting	Petroleum	Manufacturing	Public utilities
Sources of funds, total	1,229	78	149	657	246	98
Net income	667	43	89	461	56	17
Net funds supplied from U. S. sources	129	13	−7	20	61	43
Net increase in liabilities to others [2]	117	(3)	3	58	37	18
Charges for depreciation and retirement of fixed assets	262	22	53	144	22	20
Depletion charges	33	(3)	6	27	(3)	....
Uses of funds, total	1,229	78	149	657	246	98
Plant and equipment expenditures	426	27	53	236	47	65
Net increase in inventories	69	2	−5	9	62	−1
Increase in other current assets	160	9	26	46	56	11
Dividends and profits remitted	555	35	70	401	29	20
Other and unidentified	26	5	5	6	6	4
Addendum: Exploration and development expenditures charged to income	72	....	11	61	....	....

1. Excludes trade and service industries. 2. Includes a minor amount of equity financing. 3. Less than $500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

Investment largest in Venezuela

Capital expenditures in Venezuela by United States companies in 1955 were $250 million, much the largest for any country in Latin America, reflecting primarily the rapid expansion of the petroleum industry. Next was Brazil, with about $60 million of investment, mainly by manufacturing companies and public utilities. Investments in Colombia, Peru and Mexico were $40-$50 million each; in Colombia petroleum was the most important industry and manufacturing was also sizable, the mining industry was outstanding in Peru, and manufacturing accounted for most of the investment in Mexico.

Argentina, Chile, and Cuba each received $25–$35 million of capital investment by United States companies. Public utilities provided much of the total in Chile and Cuba and manufacturing was most important in Argentina.

Over $1 billion of funds available in 1955

The data on total sources and uses of funds available during 1955 to United States companies operating in Latin America, given in tables 13 and 14, provide a more complete and detailed measure of the gross investment activities of the companies and their means of financing them than the data on net capital flows which are collected for use in balance of payments statistics. This is largely because the latter net out the flow of funds coming to the United States from charges against income for depreciation and retirement of fixed assets against the reinvestment of such funds, and development and exploration expenses are treated in the balance of payments as current costs rather than as capital outflows.

In 1955 the companies reporting in this survey had available about $1.2 billion after meeting their current expenses. The largest source of funds was earnings of about $700 million, followed by depreciation and depletion charges of about $300 million, net funds supplied from the United States of about $125 million, and funds from other sources, mainly local creditors, of about $120 million. In addition, exploration and development expenses charged against income were over $70 million.

Table 14.—Sources and Uses of Funds of U. S. Companies Operating in Latin America,[1] by Selected Countries, 1955

[Millions of dollars]

	Total	Argentina	Brazil	Chile	Cuba	Mexico	Peru	Venezuela	Other countries
Sources of funds, total	1,229	46	114	89	70	94	62	599	165
Net income	667	17	46	64	21	25	29	406	69
Net funds supplied from U. S. sources	129	10	34	1	28	39	7	−12	23
Net increase in liabilities to others [2]	117	12	22	5	6	−2	7	45	23
Charges for depreciation and retirement of fixed assets	262	7	12	19	15	12	14	144	39
Depletion charges	33	....	(3)	....	(3)	(3)	5	17	11
Uses of funds, total	1,229	46	114	89	70	94	62	599	165
Plant and equipment expenditures	426	12	36	20	32	27	36	188	80
Net increase in inventories	69	14	17	4	3	16	−3	10	10
Increase in other current assets	160	14	42	12	16	27	5	12	22
Dividends and profits remitted	555	5	16	53	10	18	19	380	46
Other and unidentified	26	1	3	(3)	9	−1	5	12	−3
Addendum: Exploration and development expenditures charged to income	72	1	(3)	4	1	6	4	52	4

1. Excludes trade and service industries.
2. Includes a minor amount of equity financing.
3. Less than $500,000.

NOTE.—Data given cover only companies reporting in special survey.

Source: U. S. Department of Commerce, Office of Business Economics.

As described above, nearly half of the funds available to the companies were used in Latin America for investments in plant and equipment and inventories, and for exploration and development. About $175 million were added to net cash holdings, accounts receivable and miscellaneous assets. The provision of large amounts of working capital is essential for the successful operation of expanded productive facilities. The companies also reported remittances from Latin America of dividends and branch profits amounting to about $555 million.

The combined total of net capital flows from parent companies in the United States and reinvested earnings for the companies covered in this survey would be somewhat less than $300 million, and this would be the amount used in measuring the increase in the book value of the United States direct investments in these enterprises in 1955. This would cover only about half of the capital investments actually being carried out in the year. Furthermore, the extent of the difference would vary greatly among industries and countries, depending on the sources of the funds being used for investment. In Venezuela, which has the largest difference between gross investment and change in net book value, the increase in the book value of all United States direct investments in 1955 was about $60 million, while, as we have seen, capital expenditures by the companies reporting in this survey were $250 million. Similar but smaller differences appear in the data for Chile, Colombia, Cuba, and Peru.

(Continued on page 24)

explained on the basis of the budgeting process since in many cases the overall project is estimated with some leeway as to the breakdown of expenditures.

The failure of construction outlays to show up more readily predictable than equipment may result because equipment outlays are made much more continuously than construction expenditures in the typical firm. Plant outlays are made rather irregularly by the typical firm whereas the more or less constant need for replacement of equipment results in a rather continuous process. Furthermore, the typical plant outlay involves only one or possibly a few plants in medium and large firms. An unforeseen shortage of materials may have a severe effect on one or a few units whereas the effect on the hundreds of equipment items typically bought during the year will be much more diffused because of the widely varying conditions under which the equipment is produced. Much of the postwar period has been distinguished by such shortage conditions although it may be noted that these findings for 1955 corroborate those made earlier for the downturn year of 1949. The possibility also exists that at times respondents have difficulty in classifying expenditures into one category or the other, especially in the case of projects started but not completed.

There appeared to be little evidence that closeness in anticipation was related to the proportion of outlays devoted to expansion programs even though it would seem reasonable that such programs require more careful and longer range planning than replacement programs. Manufacturing companies with capital outlays more than 25 percent for expansion purposes were not particularly more reliable than those whose programs were less than 25 percent for expansion. There did not appear to be any differences in this relation for the various size groups of firms.

Table 7 also shows that in 1955 manufacturers were better able to anticipate capital outlays in aggregate than either replacement or expansion separately. In part this may reflect the difficulty of defining expansion as opposed to replacement; respondents were given considerable leeway in providing this breakdown, and may not have used the same classification of projects in both the anticipated and actual figures. Somewhat greater accuracy was apparent for replacement outlays than for expansion for all sizes of firms.

Further investigation

The *Survey* will present later this year findings on sales, profits and other factors altering capital outlays, as part of a continuing study of changes in investment programs.

The Role of U. S. Investments in the Latin American Economy

(Continued from p. 16)

In this study an attempt is made to measure the benefits resulting from the expansion and continued operations of United States direct private investments abroad. Although the data in this study relate only to Latin America, an extension of the coverage of such reports to all countries would show that similar benefits are derived by many countries in other areas. These data can provide a better understanding of the role of private investments by setting forth the facts concerning their effects and significance.

Technical Note

COVERAGE.—Forms and instructions in this voluntary survey were mailed to about 600 companies which, according to Commerce Department files, were believed to have reportable investments in the Latin American Republics. About 300 companies filed completed reports. Another 200 companies replied that they no longer had reportable investments in Latin America, or that they were exempted from reporting in this study. (Exempted were foreign enterprises with total assets of less than $100,000, or in which the reporting company had less than a 50 percent controlling interest.) There remain a number of companies for which reports are still outstanding which will be included in final tabulations.

Table A.—Coverage Obtained in the Special Latin American Survey, 1955, Based on Total Assets

[Millions of dollars]

Item	Total assets of all U. S. direct investments in Latin America, 1950 report[1]	Total assets of foreign affiliates covered in this survey as shown in 1950 report	Percent of coverage
All industries	6,938	5,927	85
Agriculture	656	617	94
Mining and smelting	767	722	94
Petroleum	1,709	1,617	95
Manufacturing	1,278	901	71
Public utilities	1,348	1,204	89
Other industries	1,181	867	73

1. *Foreign Investments of the United States*, a 1953 Supplement to the SURVEY OF CURRENT BUSINESS. Adjusted to exclude assets of Latin American shipping affiliates engaged in international shipping operations and of insurance companies.

Source: U. S. Department of Commerce, Office of Business Economics.

The 300 companies included in these tabulations filed about 1,000 separate reports for Latin American investments. However, these reports covered a considerably larger number of establishments in Latin America because many reports consolidated all operations of a parent company in the same country.

Operations of Latin American affiliates engaged in international shipping operations were excluded from this survey, as were the operations of insurance companies and most companies engaged solely in the export and import business.

Since nearly all companies with sizeable investments in Latin America filed reports in this study, the coverage obtained was considerably greater than indicated by the numerical response. The table below shows the extent of coverage obtained for the various industries.

Two report forms (Forms BE-107 and 107A) were used in this survey. Form BE-107, which was applicable to operations in the manufacturing, petroleum, mining, agriculture, and public utilities industries, included certain information on sales, imports, capital flows, sources and uses of funds, and balance sheets which was not called for on Form BE-107A (applicable mainly to trading and service industries). Therefore data given for these items in the text refer only to the industries listed above.

Foreign currency conversions

All dollar amounts listed in this study are as stated by reporting companies, or as converted by the compilers from reports given in foreign currencies. Conversions, where needed, were generally made at average free market rates for the periods covered in the reports. Some adjustments to these rates have been made in the conversion of charges for depreciation and amortization of fixed assets, to approximate the rates at which such assets were originally acquired. Such adjustments also affect the conversion of net earnings into dollars.

Industry classification

The reports submitted frequently consolidated operations in more than one industry in a given country. The reports were therefore classified on the basis of what was considered to be the major field of activity. Generally, the industry groups used in this study are comparable to those used in prior studies of international investments by the Department of Commerce. They differ from the Standard Industrial Classification Schedules mainly in the mining and smelting and petroleum industries. Smelting operations are classified in manufacturing in the Standard Industrial Classification, but included in the mining industry for the purposes of this study. The petroleum industry in this study includes extractive and exploratory activities, refining, transportation, and distribution facilities. These activities are classified in the Standard Industrial Classification as mining, manufacturing, transportation, and trade, respectively.

Estimated data

Reports filed by the companies included both actual accounting data and estimates for some items. In a limited number of cases incomplete reports were filled in on the basis of estimates prepared by the compilers. Such estimates do not make up a significant part of the tabulated totals.

Comparison with balance of payments data

Data collected in this survey relating to net funds supplied from the United States, net income, and income remittances are generally similar to data collected for balance of payments purposes, but vary somewhat because of differences in definition and coverage and because the accounts of foreign affiliates are utilized in this survey rather than the parent company accounts used for the balance of payments.

Net funds supplied from the United States, as given in this survey, includes not only parent company funds but also other United States Government and private sources of funds. The data for net income given herein include the income accruing to local investors, rather than only the United States equity used in the balance of payments.